

COMMONWEALTH OF VIRGINIA

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DELEGATE DANIEL MARSHALL, III, Vice-chair
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VIRGINIA HOUSING COMMISSION

SUMMARY

Virginia Housing Commission December 11, 2013, 10:00 AM Senate Room A, General Assembly Building

I. Call to Order

Senator Mamie Locke, Chair, called the meeting to order at 10:09 AM.

Members in attendance: Senator Mamie E. Locke, *Chair*; Delegate Daniel W. Marshall, III, *Vice-chair*; Senator George L. Barker; Senator John C. Watkins; Delegate David L. Bulova; Delegate Rosalyn R. Dance; Delegate Barry D. Knight; T. K. Somanath, *Governor's Appointee*.

Staff: Elizabeth Palen, *Executive Director of VHC*

II. Current Mortgage Conditions and Housing Sales in the Commonwealth

- **Sonya Waddell, Regional Economist, The Federal Reserve Bank of Richmond:** We have seen sustained improvement in residential real estate in Virginia and in the country as a whole.
 - The foreclosure inventory rate in the third quarter of 2013 was 1.06%, which translates into 14,000 loans in the foreclosure process. This represents improvement, but we are still in a challenging housing market. There is a strong decline in the number of loans in foreclosure, with the number of mortgages originated holding steady.
 - Virginia's foreclosure inventory rate is much better than other states in the nation. Foreclosure inventory rate is defined by number of loans going into foreclosure and the time a loan spends in foreclosure.
- **Senator George Barker:** Are there concentrated areas with high inventory rates, or are they more evenly distributed?
 - **Waddell:** The foreclosure inventory is definitely more spread out across the state. Delinquency has some more concentrated areas.
- **Waddell:** In terms of the share of foreclosure inventory, we are heading back toward what was normal in the 1990's and early 2000's, with a higher share of FHA and VA loans in foreclosure.
 - Ninety-day delinquency rate has been declining, and in the third quarter of 2013 was 2.1%, translating to 28,000 loans. The shadow inventory, the number of loans either in 90-day delinquency or in foreclosure, also shows a decline, with 43,000 loans in the third quarter.

- For the nation, we have seen an increase in home sales both with new and existing homes. When breaking home sales down in Virginia, we see a slight increase in new construction and resale, a steady decline in REO, and little change with short sales. Resales represent the highest share of this market. We are seeing a comeback in sales and even a low inventory in places like Northern Virginia.
- Recently, an increase in housing construction is reflected in an increase in Virginia housing starts. There is a positive trend, but it is volatile.
- There has been consistent positive growth for the past 18 months for the house price index. However, recently the Commonwealth lags behind the nation in increase of housing prices.
- **Senator John Watkins:** What accounts for that lag? Is that due to sequestration?
 - **Waddell:** We have not been able to adequately quantify the effects of sequestration.
- **Watkins:** Does CoreLogic break down their data by regions in the state?
 - **Waddell:** Yes. We can break down by the county or MSA.
- **Delegate Danny Marshall:** Could you email us the breakdown by counties?
 - **Waddell:** Yes, I can.
- **Barker:** Northern Virginia has seen the highest growth in house prices. That suggests sequestration has not had an effect on housing prices, but suggests sequestration dampened new construction.
 - **Waddell:** Yes, housing prices have not decreased. It is very challenging to determine the effects of sequestration, as we do not know what house prices would have been without sequestration.
- **Marshall:** Can you also provide household income, unemployment rates, and population growth?
 - **Waddell:** Yes.
- **Waddell:** Negative equity has been declining as house prices have been growing. There are concentrations of high delinquency rates in the Richmond area and in the Hampton Roads area. This has been the case for two years.
 - Construction employment has not recovered although new construction is seeing growth.
- **Waddell:** For total payroll employment, Virginia had recovered almost all jobs lost. Virginia is about 6,000 jobs short from the level in 2007.
 - Professional and business services employment is an area that has driven Virginia out of recessions in the past. We have not seen the kind of growth in this area that we have seen in the past or that we have seen in other areas.
 - Virginia has more federal contract spending than in any other state.

- The unemployment rate in Virginia was 5.6% in October, which is quite a bit lower than the national unemployment rate of 7.3% in October. Unemployment is still extremely low in Northern Virginia, which pushes down the state unemployment rate.
- We have seen sustained improvement in residential real estate in Virginia. The housing market improvement is slow and still operating at a low base. Virginia has seen recovery in jobs but more is needed. Federal government spending is a big part of Virginia's economy, which can be good and bad.
- **Watkins:** Is the inventory of REOs back down to reasonable levels, compared to those in 2005-2006?
 - **Waddell:** There is the visible and invisible part of the REO inventory. The visible part has fallen quite a bit, but there remains uncertainty of what banks are holding in terms of property.
- **Watkins:** With the house price index, is the drop between U.S. and Virginia due to growth of the multi-family market in Virginia?
 - **Waddell:** This is actually a repeat sales index, and should not reflect the type of homes being sold.
- **Watkins:** Do you not think the pricing of multi-family homes would be less than single-family homes.
 - **Waddell:** I believe so. However, this repeat sales index never looks at the price, only the percentage change.
- **Marshall:** What is a repeat sales index?
 - **Waddell:** This index looks at homes that have been sold before and aggregates percentage changes for these homes.
- **Marshall:** So it takes out new construction?
 - **Waddell:** Yes, that is correct.
- **Marshall:** Why is that important?
 - **Waddell:** We look at this number because existing home sales is such a large part of the sales market.
- **T. K. Somanath:** Is there a way to include affordability in the housing index?
 - **Waddell:** I can look into that.

III. Housing Trust Fund; Homelessness; Budget

- **Bill Shelton, DHCD:** Last week, the Governor made an announcement to include additional resources relative to housing. This will include \$4 million to fund the Virginia Housing Trust Fund, half a million dollars to support rapid rehousing efforts, and an additional half million dollars to operate a state database regarding homelessness.

IV. Proposed Bills

First-Time Home Buyer Savings Accounts (HB 1868, T. Greason, 2013)

- **Chip Dicks**, *Virginia Association of Realtors*: This Commission heard details of this bill in the meeting in Norfolk, where two amendments were proposed. We struck the provision that removed banks from the definition of “financial institution.” I anticipate no issues with the Bureau of Financial Institutions.
- **Delegate Barry Knight**: Would you include bank in the definition of “financial institution” on line 20 as well?
 - **Dicks**: Yes, that is a good edit.
- **Dicks**: This legislation allows an account holder to designate an account as a First-Time Home Buyer Savings Account. There is no obligation on part of the financial institution. Taxpayers have responsibility to include a form with their income tax returns to designate the account. The account owner then pays no state tax on gain in this account, as long as funds are used for an eligible purpose.
 - We agreed to a \$50,000 cap on the primary contribution. To prevent fraud, we added a cap of \$150,000 on the account including growth.
- **Barker**: To clarify, once the accounts grew to \$150,000, would the account holder then have to take money out of the account to prevent it hitting the cap?
 - **Dicks**: There will be no tax exemption for growth above that cap of \$150,000.
- **Marshall**: I do not agree with setting a limit on the growth.
 - **Watkins**: Without this cap, we are opening ourselves up to fraud, called “stacking.” There is no limitation on the number of accounts you could have, each of which’s interest is tax free.
 - **Dicks**: Multiple accounts could only be opened with respect to different beneficiaries.
- **Marshall**: Then why set the cap at \$150,000? In 30 years, that may not be as significant.
 - **Watkins**: You put a limit because the other taxpayers in the state make up the difference.
- **Knight**: How many accounts could be in your granddaughter’s name?
 - **Dicks**: The intent is that the aggregate amount in one or multiple accounts can only be \$50,000.
- **Barker**: Who monitors the principal investment cap of \$50,000?
 - **Dicks**: This is self-compliance through the Virginia Department of Taxation.
- **Barker**: Will those accounts be identified by beneficiary?
 - **Dicks**: Not necessarily. The taxpayer is responsible for the compliance. If the principal investment is greater than \$50,000, the Department of Taxation will be responsible with identifying the beneficiary.

- **Barker:** What if multiple accounts by separate individuals are opened for a common beneficiary, then at settlement will someone have to pay a penalty if the amount is above the cap?
 - **Dicks:** There is a burden on the taxpayer to be sure this is done correctly. You could also transfer the beneficiary.
- **Somanath:** Is it possible to add co-ops to the definition of family residence?
 - **Dicks:** We would have no problem adding co-ops.
- **Delegate Marshall** made a motion for the Housing Commission to endorse the bill.
- **The motion was seconded and passed.**

Adaptive Flooding; proposed study commission resolution

- **Locke:** This resolution would create a joint Senate and House Subcommittee to look into a comprehensive flood mitigation plan.
- **Elizabeth Palen, Legislative Services:** Lines 53-56 show the changes made to the legislative draft since the last Full Commission meeting.
- **A motion to endorse this study commission resolution was seconded and passed.**

Uniform Statewide Building Code; if town does not elect to enforce, county shall enforce (HB 1574, R. Minchew, 2013/SB1239 M. Herring, 2013)

- **Emory Rodgers, Department of Housing & Community Development:** Mark Flynn was going to present his revised legislation. Unfortunately, he could not be here, as he is ill.
 - Most of the changes were made to clarify the language in the current statute, leaving in the population threshold in the Virginia Maintenance Code. It appears Mark Flynn was attempting to remove population threshold, but still allow flexibility for towns and counties to have an agreement.
- **Jeff Gore, Loudon County:** This issue began with a dispute between Leesburg and Loudon County, which is now resolved. Loudon County still opposes striking the 3,500 population threshold. The presumption is that smaller towns do not have the resources to enforce the Maintenance Code. Removing the population threshold would be a significant policy change, creating a new mandate and burden for the county.
- **Erik Johnston, Virginia Association of Counties:** I strongly oppose this legislation, especially in regard to removing the population threshold. We are not convinced there is a problem, as the specific instance with Loudon County and Leesburg was resolved.
- **Marshall:** People often submit legislation to fix a problem, but it seems the problem has been fixed. Does Delegate Minchew still want to put this legislation through?
 - **Palen:** Mr. Flynn discussed this with Delegate Minchew, and he still very much wishes to move forward.
- **Delegate Rosalyn Dance:** If the problem is fixed, why would we continue with the legislation?
 - **Locke:** It is my understanding that the delegate wishes to move forward.

- **Delegate Marshall made a motion to take no further action with this legislation.**
- **The motion was seconded.**
 - **Marshall:** If Minchew wants to move forward with the bill, he can still do so. He just will not have the endorsement of the Housing Commission.
 - **Barker:** I support the motion before us.
 - **Palen:** Mark cannot be here, but he requested that the Commission endorse the legislation.
- **The motion to take no action was passed.**

Building Revitalization Grant Fund (SB 748, W. Stanley, 2013)

- **Senator Bill Stanley:** The Building Revitalization Grant Fund would provide grants to individuals in localities to revitalize older buildings. This draft allows \$100,000 grants, providing the business shall enter into a memorandum with the Department of Housing and Community Development and provides a capital investment of \$1 million.
- **Watkins:** The Senator has assured me that he will introduce a companion amendment to the budget ensure the funds are from sources other than the General Fund.
 - **Stanley:** We had discussed the availability of Tobacco Funds, but it would change the bill to reflect the Tobacco Footprint.
- **Knight:** I had a similar thought about Tobacco Funds.
- **Watkins:** Very recently, the Governor announced a Regional Economic Collaboration Fund that could also be tied into this bill.
 - **Stanley:** I would be more than happy to look into that.
- **Delegate David Bulova:** What is the purpose of the first come first serve nature for the bill? Is there for a reason, or could you entertain the idea of prioritizing the resources based on board recommendation?
 - **Stanley:** The first come first serve basis of the legislation seemed like the easiest way. I have no reservations to remove that, and make it more priority based.
 - **Bill Shelton:** We, too, would have no problem taking that out.
- **Marshall:** So we will strike line 30?
- **Dance:** I have some localities in the Tobacco District. However, I also have some that qualify for the program, but are not in the District. How can we address this to help those areas, too?
 - **Marshall:** We do not just have to go through the Tobacco Commission, but could make this state-wide.
- **Dance:** I have no problems supporting a pathway that could benefit localities. Is there language we could use to address areas of need, not only in the Tobacco District, without including the entire state?

- **Marshall:** We could include a provision where certain unemployment rates would qualify an area, as originally drafted.
- **Watkins:** I think we should endorse the bill. Usually this type of bill gets shut down in finance. With the assumption that Senator Stanley will be creative with his budget amendments, I propose we support the bill as is.
- **Senator Watkins made a motion to endorse the bill.**
- **Delegate Marshall seconded the motion.**
- **Knight:** I think you should keep an amendment with the Tobacco Commission in mind as you move forward, as you may end up needing one.
- **Stanley:** I am open to any kind of funding.
- **The motion passed.**
- **Delegate Dance volunteered to sponsor the bill.**

Real Estate Board; Death or Disability of a Broker (HB 1973, S. Surovell, 2013) was recommended in the previous meeting.

- **Senator Barker agreed to carry this through the Senate.**

V. Legislation not recommended or in need of further study by the Virginia Housing Commission

Mortgage Loan Originator Bill

- **Susan Handcock**, *Bureau of Financial Institutions at Virginia State Corporation Commission*: I am pleased there is now no need for legislation relating to mortgage loan originator licenses. We are tweaking regulations, and I am happy to answer questions.

VI. Public Comment

- **Senator Locke** asked if there was any comment from the public.

VII. Adjourn

- Hearing no request to comment, **Senator Locke** adjourned the meeting at 11:54 AM.